

Message Text

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ACTION EB-08

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INFO AMCONSUL RIO DE JANEIRO

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E.O. 11652: N/A

TAGS: EAGR BR

SUBJECT: COFFEE - BRAZILIAN DOMESTIC MARKETING POLICY

REF: BRASILIA 3029

FOLLOWING TELEGRAM DRAFTED IN CONGEN RIO DE JANEIRO:

1. SUMMARY: THE GOB HAS ANNOUNCED SEVERAL CHANGES IN ITS DOMESTIC COFFEE MARKETING POLICY, INCLUDING A 29 PERCENT PRICE INCREASE. THESE STEPS ARE NECESSITATED BY DECREASES IN IBC STOCKS, WHICH HAVE BEEN USED TO SUPPLY THE DOMESTIC MARKET AT SUBSIDIZED PRICES. END SUMMARY.

2. BACKGROUND: SINCE JULY, 1976, IBC HAS SUPPLIED DOMESTIC ROASTERS WITH COFFEE FROM IBC STOCKS AT BELOW-MARKET PRICES. THIS POLICY HAS ENABLED THE GOB TO MAINTAIN THE DOMESTIC PRICE AT ABOUT CR\$44/KG (DURING THIS PERIOD THE EQUIVALENT PRICE IN DOLLARS/LB HAS DECREASED FROM DOLS 1.86 TO 1.50 DUE TO ELEVEN MINI-DEVALUATIONS THAT OCCURRED FROM JULY, 1976 - APRIL, 1977). IBC STOCKS ARE RAPIDLY BEING EXHAUSTED:

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ACCORDING TO ONE REPORT THERE WERE 6.2 MILLION BAGS LEFT IN IBC WAREHOUSES AS OF FEBRUARY 28, 1977. RECENTLY IBC HAS BEEN FURNISHING 100 PERCENT OF DOMESTIC CONSUMPTION (APPROXIMATELY 550,000 BAGS PER MONTH) IN ADDITION TO TRADITIONAL SUPPLIES TO THE SOLUBLE INDUSTRY. BY THE END OF 1977 IBC STOCKS MAY FALL BELOW 1 MILLION BAGS (REFTTEL). HOWEVER, RECENT STATEMENTS BY THE MINISTER OF INDUSTRY AND COMMERCE, CALMON DE SA AND

CALAZANS, PRESIDENT OF THE IBC INDICATED THAT THE GOB INTENDS TO CONTINUE THIS SUBSIDIZATION OF DOMESTIC CONSUMPTION.

3. ON APRIL 13 AND 14 SEVERAL CHANGES IN DOMESTIC MARKETING POLICY WERE ANNOUNCED. THESE MEASURES SHOULD DECREASE DOMESTIC DEMAND AND INCREASE THE QUANTITY OF COFFEE AVAILABLE TO THE DOMESTIC MARKET:

- THE RETAIL PRICE CEILING WAS SET AT CR\$59.40/KG (CR\$61 IN THE NORTH AND NORTHEAST REGIONS). THIS 29 PERCENT INCREASE MEANS THAT THE BRAZILIAN CONSUMER NOW PAYS THE EQUIVALENT OF \$2.00/LB FOR COFFEE. (CR\$13.295 EQUALS \$US1.)
- IBC WILL CONTINUE TO SUPPLY DOMESTIC ROASTERS BUT AT CR\$1930/60 KG BAG. PREVIOUSLY THE PRICE HAD BEEN CR\$1200 PER BAG. THE CURRENT BRAZILIAN MARKET PRICE IS CR\$3500-3800/BAG.
- EXPORTS OF LOWER QUALITY COFFEE (I.E., COFFEE CLASSIFIED BELOW TYPE SIX) WILL NO LONGER BE PERMITTED. ON THE DOMESTIC MARKET THIS COFFEE CANNOT BE SOLD AT A PRICE ABOVE CR\$2000/BAG. THE PURPOSE IS TO ASSURE SUPPLIES TO THE SOLUBLE AND ROASTER INDUSTRIES AT APPROXIMATELY THE SAME PRICE THEY ARE NOW PAYING FOR IBC STOCKS.

4. IT IS NOT CLEAR WHETHER THESE MEASURES ARE SUFFICIENT TO GUARANTEE SUPPLIES TO THE DOMESTIC MARKET. ONE REPORTED ESTIMATE IS THAT 20 PERCENT OF THE 1977 CROP WOULD BE BELOW TYPE SIX AND THUS 3 MILLION BAGS (ASSUMING A 15 MILLION BAG CROP -- THE IBC CROP ESTIMATE (FAS ESTIMATE IS 17 MILLION BAGS) WOULD BE UN-EXPORTED. ADDED TO THE 6.7 MILLION BAGS IN IBC AS OF 2/28/77, 9.2 MILLION BAGS WOULD BE AVAILABLE FOR THE SOLUBLE INDUSTRY AND DOMESTIC CONSUMPTION THROUGH JUNE LIMITED OFFICIAL USE

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1978. SOLUBLE NEEDS ARE APPROXIMATELY 2 MILLION BAGS PER YEAR. AND DOMESTIC CONSUMPTION IS 0.5 MILLION/MONTH, ACCORDING TO THE IBC, THE TOTAL INTERNAL DEMAND THROUGH JUNE 1978, UNDER THESE ASSUMPTIONS, WOULD BE 10 MILLION. THIS GAP WOULD BE REDUCED IF DOMESTIC CONSUMPTION IS SLOWED OR SIGNIFICANT QUANTITIES OF LOWER GRADE COFFEE ARE PRESENT IN PRIVATE STACKS, WHICH WERE ESTIMATED AT 11.1 MILLION BAGS AS OF FEBRUARY 28.

5. RECENTLY THERE HAS BEEN PRESS SPECULATION ON TWO OTHER STEPS THAT COULD BE TAKEN TO MEET DOMESTIC DEMAND:

- STRETCHING COFFEE SUPPLIES THROUGH USE OF A CEREAL GRAIN ADDITIVE. THIS PROCEDURE IS CURRENTLY AGAINST BRAZILIAN LAW AND ANY CHANGES WOULD LIKELY BE VERY UNPOPULAR. CALAZANS HAS DENIED THAT THE IBC IS STUDYING THIS POSSIBILITY.
- "CONTINGENCIAMENTO" - RETENTION OF 20 PERCENT OF THE EXPORTABLE MARKET. THE NEW REGULATION REGARDING QUALITY OF EXPORTABLE COFFEE WILL FUNCTION SIMILAR TO THIS IDEA.

6. COMMENT: THE MEASURES ANNOUNCED SO FAR SHOULD BE SUFFICIENT

TO KEEP THE BRAZILIAN MARKET SUPPLIED WITH SUBSIDIZED COFFEE
UNTIL THE HARVEST AND FROST SEASONS HAVE PASSED. AT THAT
POINT THE GOB CAN REASSESS THE SITUATION AND DETERMINE
WHAT, IF ANY, ADDITIONAL STEPS SHOULD BE TAKEN. THE BRAZILIAN
GOVERNMENT CLEARLY FEELS IT CANNOT AFFORD TO ALLOW BRAZILIAN
CONSUMERS TO BEAR THE FULL BURDEN OF CURRENT INTERNATIONAL
COFFEE PRICES.
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